

**CITY OF EARLHAM**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
JULY 1, 2014 THROUGH JUNE 30, 2015**

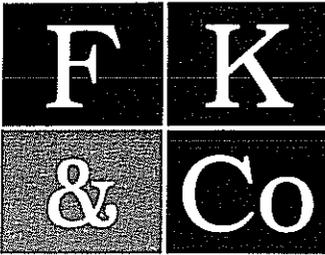
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**City of Earlham**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dusky Terry	Mayor	Jan 2016
Jeff Lillie	Council Member	Jan 2016
Jaime Royster	Council Member	Jan 2018
Scott Petersen	Council Member	Jan 2018
Chris Swalla	Council Member	Jan 2018
Heather Stancil	Council Member	Jan 2016
Linette Crouch	City Clerk	Resigned June 2015
Mary Sue Hobbs	City Clerk	Indefinite



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

We have performed the procedures enumerated below which are established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Earlham for the period July 1, 2014 through June 30, 2015. The City of Earlham's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

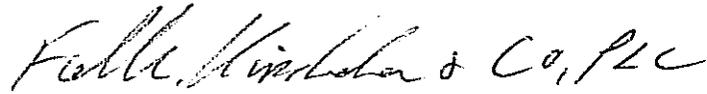
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of the financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Earlham, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Earlham and other parties to whom the City of Earlham may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlham during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

January 6, 2016  
Des Moines, Iowa

## Detailed Recommendations

CITY OF EARLHAM  
DETAILED RECOMMENDATIONS  
For the period July 1, 2014 through June 30, 2015

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Earlham (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings, including total disbursements from each fund and a summary of all receipts, be published within fifteen days of the meeting. Total disbursements for the employee benefits fund were not published.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund, summary of all receipts and ordinances are published as required.

(C) Official Depositories – A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa; however, the resolution does not include a dollar amount.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

CITY OF EARLHAM  
DETAILED RECOMMENDATIONS  
For the period July 1, 2014 through June 30, 2015

- (D) Bank Reconciliations – The savings and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (F) Financial Condition – At June 30, 2015, the City had deficit balances of \$80, \$3,245, \$195,589, \$94,346, and \$1,194 in the Employee Benefit Fund, Tax Increment Financing Fund, Debt Service Fund, Capital Projects Fund, and Community Fund.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial condition.

- (G) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the public works, community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also the beginning amounts of the amended budget do not agree with the ending amounts on the original budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also the City should make sure the amounts reconcile between the original budget and any amendments.

- (H) Clerk’s Report – Although monthly Clerk’s reports are prepared, a budget vs actual comparison was not present.

Recommendation – The City should establish procedures to ensure the monthly Clerk’s reports include a budget vs actual comparison.

CITY OF EARLHAM  
DETAILED RECOMMENDATIONS  
For the period July 1, 2014 through June 30, 2015

- (I) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported receipts and disbursements do not agree with the City’s records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records

- (J) Annual Urban Renewal Report (AURR) – The City’s beginning and ending cash balances of the Special Revenue, Tax Increment Financing Fund reported on the Levy Authority Summary do not agree with the City’s records. Also the City included costs which were not certified to the County Auditor as TIF debt.

Recommendation – The City should ensure the balances and activity reported on the AURR Levy Authority Summary agree with the City’s records.

- (K) Tax Increment Financing (TIF) – Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable LMI assistance.

During the year ended June 30, 2015, the City paid \$1,573 of claims from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for these costs. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

- (L) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

CITY OF EARLHAM  
 DETAILED RECOMMENDATIONS  
 For the period July 1, 2014 through June 30, 2015

(M) Water Revenue Notes – The provisions of the water revenue notes require sufficient monthly transfers to be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due; the City to maintain a sufficient reserve fund; and all users of the system, including the City, shall pay for usage. The City has not made all the required transfers to the sinking account. The City also has not maintained a sufficient balance in the water reserve fund, nor is the City paying for all its water usage.

Recommendation – The City should ensure sufficient monthly transfers are made to the water revenue note sinking account as required, maintain the required balance in the water reserve fund, and make sure the City is being charged for all its water usage.

(N) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jeff Lillie, Council Member Owner of Lillie Plumbing	Repairs and maintenance	\$5,436

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transaction with Lillie Plumbing may represent a conflict of interest since the total transactions were more than \$2,500 and the contract was not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

(O) Employment – During the year, a City employee was paid \$300 stipend for also working the concession stand at the pool. The stipend was treated as a vendor payment rather than additional compensation.

Recommendation – The City should ensure all payments for services to City employees are run through the payroll system.